



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

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Third District

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Fifth District

December 12, 2008

To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

REQUEST FROM METROPOLITAN LIFE INSURANCE COMPANY TO PAY ADDITIONAL COMPENSATION TO BROKERS ON COUNTY'S ACCOUNT

On September 12, 2006, the Board approved a contract with Metropolitan Life Insurance Company (MetLife) to provide optional universal life insurance for non-represented County employees. The contract provides for premium rates guaranteed for four years at rates approximately 25% lower than the rates that existed under the previous term insurance program. The contract also provides for broker commissions of 4.5% of premiums plus 1% of any funds employees may elect to invest in a MetLife "side fund." These commissions are shared by Messrs. Brian Bozajian and Peter Lizotte, and their respective firms, who jointly serve as the brokers of record on this program.

Request from MetLife

MetLife is requesting permission to pay additional compensation to these brokers at no cost to the County or the employees who purchase this coverage. This compensation would be in addition to the commissions outlined above. This request is being made in connection with a recently activated MetLife broker compensation policy designed to reward brokers who have placed and service a high volume of business with MetLife. The policy was not in place in 2006 when the Board approved the MetLife contract. Consequently, there is no language in the current contract that addresses this issue.

Although there would be no cost to the County, MetLife is nonetheless precluded from taking this action under our contract with them as it currently reads. The contract language essentially prohibits any compensation over and above the compensation

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specifically provided for in the contract. This language was originally drafted to limit commissions that could impact the County's premium rates over the four year rate guarantee period. Although that is not the case here, granting this request would still require a technical amendment to the MetLife contract.

Recommend Approval of MetLife Request

We recommend this request be granted and that the necessary technical changes to the MetLife contract be effectuated. Our reasoning is as follows:

- There is no County cost or other adverse impact. The premium rates under the County's program are locked in through 2010. Those rates will not go up if this compensation is paid and they will not go down if it is not paid.
- This is an internal MetLife policy decision. The additional compensation program rewards all the business these brokers have brought to MetLife, not just the County's business. The cost would be embedded in MetLife overhead expense and spread across their entire book of business.
- Our independent group insurance consultant, Mercer, indicates this type of additional broker compensation is common practice in the insurance industry. They concur with the recommendation to grant this request.

We also see no disadvantage in terms of the County's ability to obtain competitive premium rates on a long-term basis after the four year rate guarantee period has expired. We have the benefit of knowing we can re-bid this program at any time based on the experience unique to our particular group. That experience is not affected by this compensation. This is arguably the best assurance we can have that the rates for this program will remain competitive in the future independent of MetLife's action on this matter.

We understand that the additional compensation attributable to the County's account would amount to approximately \$375,000 now, plus an additional \$100,000 payable in 2009. This would go to our two brokers and their respective firms and would be in addition to the above described commissions set out in the MetLife contract. The contract commissions, also shared by the brokers and their firms, are estimated at \$620,000 per annum. MetLife informs us that the decision to make the additional compensation payments is essentially a year-to-year decision on their part. No decision has been made for any period after 2009.

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No Formal Board Action Required

We have attached language that we recommend adding to the MetLife contract through a contract "Change Order." The Change Order clarifies that MetLife may pay the additional compensation in question, but that such compensation will in no way affect the costs of the MetLife program for the County or its employees. The Change Order does not require formal Board action because the change does not affect the scope of work, term, contract sum, payments, or any material term or condition included under the County's contract with MetLife. The Change Order has been approved by the County Counsel.

Unless we hear differently from you prior to January 7, 2009, we will proceed with the recommended Change Order. If you have any questions on this matter, please contact me or have your staff contact Kathleen Blanchette at (213) 974-2538.

WTF:SRH
WGL:PG:KAB:df

Attachment

Proposed Change Order Language For Contract

Notwithstanding Section 1.5 of the Statement of Work, the County acknowledges that one or both Brokers may qualify and be paid for additional compensation from MetLife under the Preferred Broker Compensation Plan (PBCP) and the Supplemental Compensation Program. This compensation is based on 1) the number of MetLife insurance policies sold by such Broker or maintained in force during the time period specified for this additional compensation and/or (2) the amount of premium with respect to such policies. MetLife will not include the cost of such additional compensation in any component of the cost charged to the County for the Group Life Contracts. Therefore, the County's rates for the Group Life Contracts will not differ as a result of one or more Brokers receiving such additional compensation. In addition, in no event shall the County be liable to compensate either Broker for any such additional compensation, including, without limitation, upon termination of a Broker for any reason.